

North Dakota Housing Finance Agency
Division of the State Industrial Commission

March 8, 2021

Budget No. 473.0

SB 2014 - Testimony of David A. Flohr, Executive Director

House Appropriations – Government Operations Committee

AGENCY OVERVIEW

North Dakota Housing Finance Agency (NDHFA) was created in 1980 by an initiated measure to issue and sell Mortgage Revenue Bonds and Mortgage Backed Securities to investors and use the proceeds to purchase, from participating private-sector lenders, the mortgages of primarily first-time homebuyers. As a self-supporting and mission-driven state agency, NDHFA is dedicated to providing affordable housing opportunities for North Dakotans. The agency provides home financing to low- to moderate-income individuals and families and helps to ensure the continued availability of suitable rental housing for households of modest means, while focusing on the overall changing housing needs of communities.

North Dakota Housing Finance Agency — FTE Count 44

Industrial Commission

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 Agriculture Commissioner Doug Goehring
 Attorney General Wayne Stenehjem

North Dakota Housing Finance Agency

David Flohr
 Executive Director

**North Dakota Housing Finance Agency
 Advisory Board**

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**Business
 Operations**

The Operations division supports the Agency's day-to-day operations providing sustainable resource management and planning through the following segments: Finance, Information Technology, Human Resources, Accounting, Administration, Risk Management, Public Affairs and Communications.

Homeownership

Through a network of lending and real estate partners, NDHFA provides low-cost financing, down payment and closing cost assistance, and homebuyer education. Servicing and origination departments have helped more than 46,000 North Dakota households achieve and succeed in homeownership.

**Property
 Management**

Thousands of individuals and families of modest means live in privately-owned properties for which NDHFA administers rental subsidies and provides regulatory oversight. The Agency's property management division ensures that these housing options are safe, accessible and affordable.

**Planning & Housing
 Development**

Addressing affordable multifamily housing needs, which encompasses a shortage of housing for the state's workforce, special needs populations, and low- to moderate-income households, NDHFA provides technical assistance to North Dakota communities in addressing their housing needs. Also administers state and federal funding for new construction and rehabilitation.

**North Dakota Homeless
 Continuum of Care (CoC)**

NDHFA is the collaborative Applicant for the North Dakota-500 Statewide Homeless CoC. The CoC is an unincorporated organization to fulfill the responsibilities of the U.S. Dept. Housing and Urban Development HEARTH Act. Geographically, the CoC encompasses all 53 counties, all cities, towns, unincorporated areas and the five federally recognized tribes.

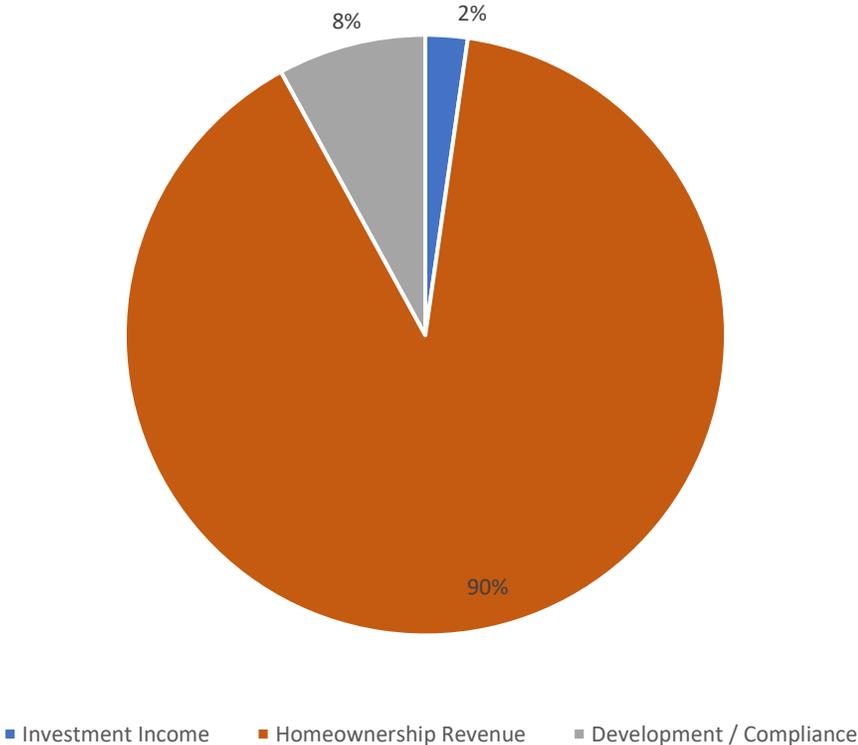
NDHFA CASH FLOW OVERVIEW

NDHFA does not receive any state General Funds. The agency is funded through a combination of Special Funds which include Investment Income, Homeownership Revenue, Program and Administration. Federal funding primarily passes through the agency to the recipients.

Each year, between \$200 and \$300 million mortgage revenue bonds are issued and sold to private investors, allowing NDHFA the ability to fund affordable home financing for first-time homebuyers. In 2020, 1,387 low- to moderate-income homebuyers were able to leverage NDHFA's programs to purchase a home.

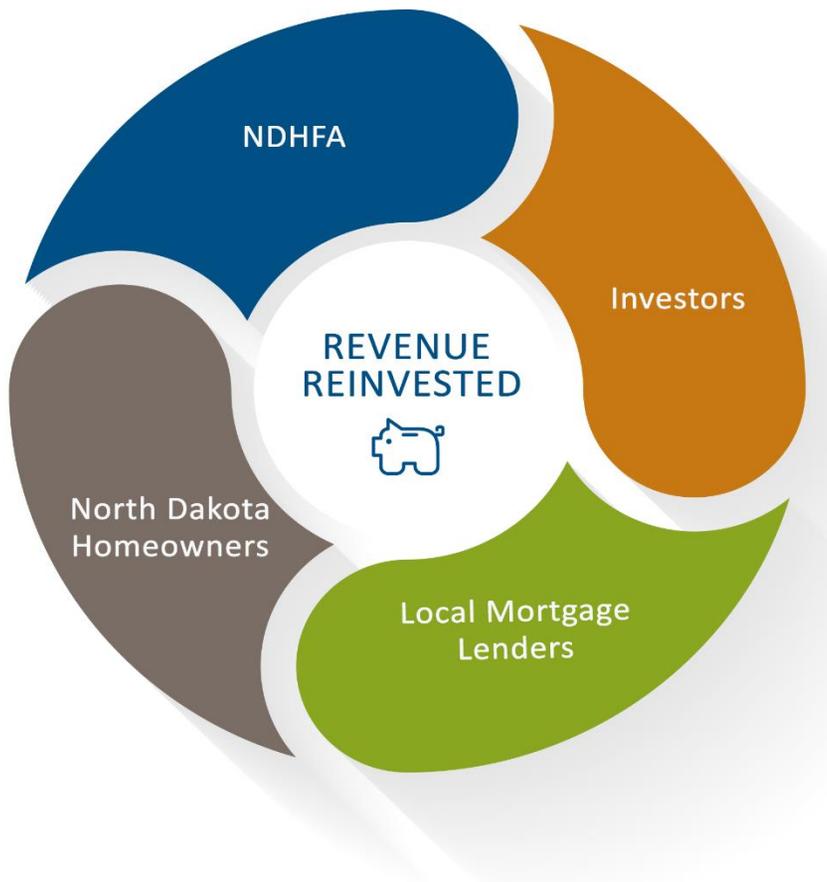
NDHFA's Special Fund Revenue is generated from three funding streams, 90 percent from Homeownership programs, 8 percent from state and federal program administration, and 2 percent from bond investment income.

NDHFA Special Fund Revenue Source



NDHFA HOMEOWNERSHIP REVENUE CYCLE

Homeownership revenue is an intricate cycle composed of private investors, local mortgage lenders and North Dakota Homeowners. The cycle begins and ends with NDHFA's ability to achieve investor confidence to secure successful bond transactions, partnerships with the local lenders who promote the agency's programs, and future homebuyers that are attracted to the state's strong economy and quality of life in both urban and rural communities.



NDHFA

NDHFA issues Mortgage Backed Taxable and Tax-Exempt Bonds and Ginnie Mae Mortgage Backed Securities.

Investors

Investors purchase NDHFA's Bonds and Securities. The bonds are rated Aa1 by Moody's, the 2nd highest rating available, and are a high quality, very low credit risk to investors.

Local Mortgage Lenders

Investor funds are used to purchase qualifying mortgage loans from local lenders. NDHFA pays a Service Release Premium to the lenders for the servicing rights.

North Dakota Homeowners

Homeowners live-in and maintain their properties and make mortgage payments to NDHFA.

NDHFA

NDHFA services the loans: payment collection, escrow account maintenance, credit bureau reporting, delinquency/foreclosure mitigation, and loan payoffs. NDHFA pays Investors. A portion of the interest paid by homeowners is retained as a servicing fee to defray operating costs.

NDHFA REVENUE REINVESTED

The net revenue NDHFA earns is used to fund single-family rehabilitation and construction programs, housing development loans/guarantees, and housing market studies. Highlights from the current biennium include:



- Helping HAND (Housing Across North Dakota) assisted in the rehabilitation of 293 single-family homes, total cost over \$1 million.
- RAP (Rehab Accessibility Program) funded accessibility upgrades for 25 homeowners, total cost over \$186,000.
- Community Land Trust Pilot issued capital advances of over \$550,000 for the acquisition and rehabilitation of four single-family homes in Grand Forks.
- Rural Housing Development Loan provided funds to transform a city block into six single-family lots to address housing needs in Oakes.
- Rural Housing Rehabilitation provided over \$425,000 for repairs to a 56-unit USDA rent-subsidized project in Grafton and a 12-unit project in Crosby.

2021-2023 AGENCY BUDGET

	NDHFA 2019-2021 Appropriation	NDHFA 2019-2021 One-time Funding	NDA 2019-2021 Base Budget	Governor's 2021-2023 Proposal	Senate 2021-2023 Approved	Senate Approved / NDHFA Base Budget
Salaries and Wages	\$8,509,015		\$8,509,015	\$9,534,152	\$9,637,524	\$1,128,509
Operating Expenses	\$5,346,276		\$5,346,276	\$6,144,060	\$6,144,060	\$797,784
Capital Assets	-		-	\$150,000	\$150,000	\$150,000
Grants	\$33,466,600		\$33,466,600	\$42,975,200	\$42,975,200	\$9,508,600
HFA Contingency	\$100,000		\$100,000	\$100,000	\$100,000	-
General Fund Transfers - HIF	\$7,500,000	(\$7,500,000)	-			
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$58,903,412	\$59,006,784	\$11,584,893
Full Time Equivalents (FTE)	44		44	48	49	5
Funding Source						
General	\$7,500,000	(\$7,500,000)	-	-	-	
Special	\$14,525,291		\$14,525,291	\$14,893,736	\$14,997,108	\$471,817
Federal	\$32,896,600		\$32,896,600	\$44,009,676	\$44,009,676	\$11,113,076
Total	\$54,921,891	(\$7,500,000)	\$47,421,891	\$58,903,412	\$59,006,784	\$11,584,893

FUNDING INCLUDED IN EACH PROGRAM/LINE ITEM

NDHFA is a self-supported, non-General Funded agency. The agency's base budget is funded with mortgage program revenues and program administration fees that cover the costs associated with the operation and administration of its programs. The net revenues NDHFA earns are utilized to fund programs for single-family rehabilitation, single-family new construction, housing development loans/guarantees, local housing market studies and to cover administration of programs such as the Homeless Continuum of Care. Grants includes federal funding received from HUD.

SALARIES AND WAGES

Senate approved an increase of \$1,128,509, which includes the Senate's compensation increases, reclassification of one current FTE and five additional FTEs.

- Transfer 2 FTEs from Dept. of Commerce - administer the federal HOME Program.
- Additional 2 FTEs - administer servicing loan portfolio transferred from BND to NDHFA.
- Additional 1 FTE - support future housing market growth and BND exit from residential mortgage program.

OPERATING EXPENSES

Operating cost Increases of \$797,784.

- Correlates with the increase in mortgage loan servicing for Bank of North Dakota (BND). The homebuyer market remains strong across the state and business has remained consistent throughout the pandemic economic disruption.
- Additional operating costs included in the re-prioritization budget are associated with administration of the HOME program (transfer from Dept. of Commerce), new IT software, a state-wide housing needs assessment.

CAPITAL ASSETS

Software purchase of \$150,000.

- Streamline multifamily financing applications and compliance reporting requirements. This software will streamline the process to upload documents and data removing the need for manual input, reducing human error and tracking projects in a centralized location.

GRANTS

Federal grant funding increased \$9,508,600.

- HOME program transfer from the Dept. of Commerce and increases in rate and utilization of HUD's Performance Based Contract Administration program.

JUSTIFICATION FOR ONE-TIME FUNDING REQUESTED/RECOMMENDED

Statewide Housing Needs Assessment cost of \$35,000.

- Commission a Statewide Housing Needs Assessment to identify issues and solutions that can be used to make strategic decisions related to the housing market. The assessment is leveraged by city, county, state and tribal government as the basis for future housing and policy decisions. Developers and planning consultants also use the study to determine the validity of new and rehabilitated single- and multifamily housing in addition to comprehensive planning studies.
- The assessment will utilize new census data and update forecasting models and fulfills Century Code 54-17-03 and 54-17-40 requirements to "address unmet housing needs and housing shortages across the state."

IMPACT OF BUDGET CHANGES TO MEET GOVERNOR'S BUDGET GUIDELINES

To meet the Governor's five percent budget reprioritization guidelines, NDHFA shifted four FTEs within the agency. The total cost to fund these 4 FTEs for the biennium is \$666,989.

- Three positions internally reallocated to the Homeownership Division to accommodate substantial increases in mortgage loan activity.
- One position allocated to administer the HUD Homeless Continuum of Care program.
- Operating costs increases correlate with the increase in mortgage loan servicing.
- Re-prioritization of operating costs associated with IT software.

The agency's ability to fulfill the private mortgage market's need to finance mortgages for low- and moderate-income homeowners is contingent upon the ability to exceed the mandated 2021-2023 base budget and 5 percent reprioritization.

FTE JUSTIFICATION

NDHFA requested and the Senate approved five FTEs. The following information details the reason for the additional positions.

FEDERAL HOME PROGRAM TRANSFER FROM DEPT. OF COMMERCE TO NDHFA – 2 FTES

The Dept. of Commerce is requesting to transfer HUD's HOME Program to NDHFA in Senate Bill 2018. The transfer will require two FTEs currently at Commerce to maintain management of the federal program. No impact to the state's General Fund.

BND LOAN SERVICING TRANSFER TO NDHFA AND RESIDENTIAL MORTGAGE EXIT – 3 FTES

BND is in the process of transferring its mortgage service portfolio of 2,318 residential mortgage loans to NDHFA. BND and NDHFA have the common goal of consolidating residential mortgages within NDHFA, creating efficiencies, and allowing each entity to focus on their primary missions. BND also plans to exit the residential mortgage business, which will result in future production increases for NDHFA loan programs.

Currently, NDHFA has 13 loan servicing FTEs and is requesting two additional FTEs.

- BND is not transferring FTEs to NDHFA.
- The National Mortgage Bankers Association latest Loan Servicer report shows the average number of loans serviced per FTE has ranged from 647 to 1,182 over the last decade and currently is at 969 loans per FTE.
- NDHFA's current serviced loans per FTE/loan ratio is 867. Adding the BND loans brings the total servicing portfolio to 13,591 which would increase the loans/FTE ratio to 1,252 if no additional FTEs are added.
- NDHFA's portfolio is primarily first-time, low- to moderate-income homebuyers who typically utilize the government-insured loan products. These loan types are more difficult to administer due to the regulations involved.
- Two additional FTEs would create a 906 loans/FTE ratio.

BND's exit of the residential mortgage space will create a secondary mortgage market gap that will be filled by a combination of NDHFA programs and the private sector. The increased production will require an additional an additional FTE to manage the increased workload and account for organic market growth.

- In addition to fulfilling the demands of the citizens of North Dakota, NDHFA has legal obligations to bond holders and investors to service the loan portfolio in accordance with industry standards and the covenants in the agreements with both of those entities.

NORTH DAKOTA'S FORECASTED HOMEOWNERSHIP TRENDS

Nationwide, pandemic-induced housing demand has ensured 2020 home purchase activity has reached the highest level since 2006, demographic trends suggest strong home buying demand is likely to continue. While 2020 was not a record setting year for NDHFA, homebuying remained strong among Gen X, while Millennials are driving most of the activity in urban and rural communities.

Since 1982, NDHFA has been a vital component to maintaining access and continuity across North Dakota's housing markets for low- to moderate-income households.

FirstHome™

FirstHome provides affordable mortgage loans to low- to moderate-income first-time buyers. In 2020, 1,246 households used NDHFA's FirstHome program, 87 percent used some form of down payment and closing cost assistance.



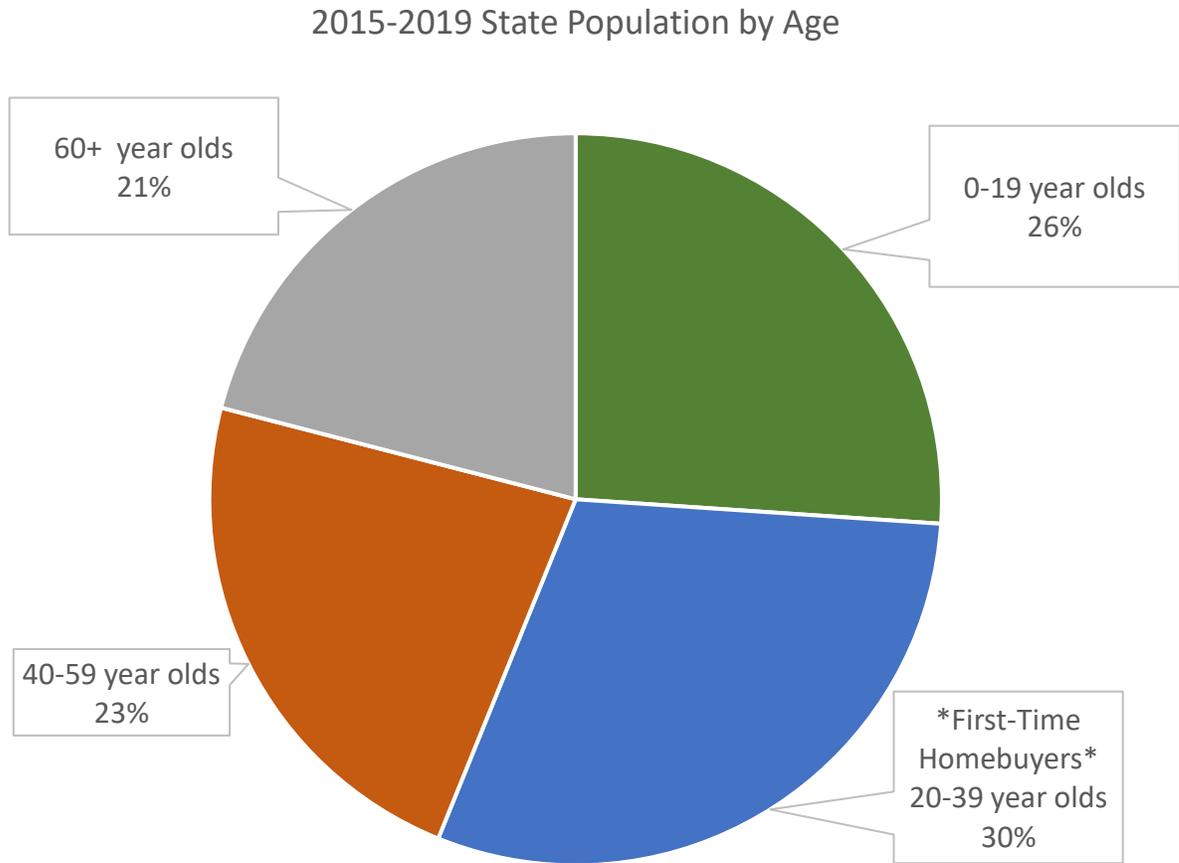
North Dakota Roots

North Dakota Roots provides affordable mortgage loans to moderate-income buyers who have previously owned a home. In 2020, 115 households used NDHFA's Roots program, 78 percent used some form of down payment and closing cost assistance.



FIRST-TIME HOMEBUYER MARKET TREND BY AGE

From 2015-2019 the state's population and demographic by age has stayed consistent. If this trend remains, over the next decade, the primary homebuying group will continue to be a dominate segment of the state's population. The three FTEs requested will be utilized to accommodate organic market growth and provide loan servicing and customer service.



HOUSING INCENTIVE FUND (HIF) JUSTIFICATION

The Senate Appropriations Committee allocated \$15 million from the General Fund for NDHFA to administer HIF. At the start of the session no funding was included in SB 2014, instead there were three different HIF bills, with varying funding sources and amounts. Those bills were either defeated or HIF language was removed.

SECTION 5. APPROPRIATION – GENERAL FUND – TRANSFER TO HOUSING INCENTIVE FUND

There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$15,000,000, which the office of management and budget shall transfer to the housing incentive fund during the biennium beginning July 1, 2021, and ending June 30, 2023.

2021-2023 PROPOSED HIF FUNDING

	HIF 2019-2021 Appropriation	HIF 2019-2021 One-time Funding	HIF 2019-2021 Base Budget	Governor's 2021-2023 Proposal	Senate 2021-2023 Approved	Senate Approved / HIF Base Budget
General Fund Transfers - HIF	\$7,500,000	(\$7,500,000)	-	\$8,000,000	\$15,000,000	\$15,000,000

HIF OVERVIEW

HIF is a state-funded gap financing program used with federal and private dollars to create affordable multifamily housing in urban and rural communities. NDHFA administers the program on behalf of the state of North Dakota. Leveraged as an upfront, one-time investment, HIF ensures rental homes in the supported projects will be affordable for a minimum of 15 years.

- 84 unique projects and 2,704 affordable rental homes.
- Every \$1 of HIF funding invested has resulted in an additional \$4.93 leveraged.

RISK OF LOSING AFFORDABLE MULTIFAMILY HOUSING

HIF is a solution to preserve older, affordable multifamily properties by financing rehabilitation and ensuring affordable rents for an additional 15 years. NDHFA, housing partners and communities have identified a project pipeline across the state.

- 43 percent of counties, for a total of 23 counties, have identified either a need for rehabilitation of 1,314 affordable multifamily housing units or are at risk of losing 1,317 units due to expiring affordability requirements.

DEPARTMENT OF JUSTICE (DOJ) SETTLEMENT AGREEMENT

Dept. of Human Services is leading the state's efforts to address the DOJ's settlement agreement to ensure that the state will meet ADA requirements by providing services, programs and activities for individuals with physical disabilities in the most integrated setting appropriate to their needs.

- NDHFA is part of the state taskforce.
- Permanent Supported Housing Requirements: affordable, permanent housing coupled with housing supports and other community-based services.
- HIF is a long-term, cost-effective solution to address the need for accessible, safe, and affordable housing for individuals transitioning out of nursing facilities.

AFFORDABLE MULTIFAMILY HOUSING FINANCING

HIF can fund up to 30 percent of total development costs up to \$3 million, unless the project is using federal tax credits, then HIF funding will be less. On average, HIF covers 20 percent of the gap financing needed to move a project forward.

The development of market-rate multifamily housing will not address the housing needs of people with disabilities, older adults with limited incomes, lower-income wage earners, and persons and families on the brink of homelessness and those experiencing chronic homelessness.

The national standard calculation for "affordable" is to spend 30 percent or less of household income on housing expenses. Multifamily housing projects leveraging HIF and federal funding sources have a sliding scale for monthly rents based on household income. Financial eligibility for those living in affordable units is verified annually.

The average hourly wage needed to afford a Fair Market rent, two-bedroom apartment costing \$841 per month in North Dakota is \$16.18. Rents vary greatly by community. While the

majority of North Dakotans are working, there is a segment of the population that will struggle to pay for their housing costs.

Below is a table of the top five employment industries in North Dakota, the average wage earned by industry and affordable housing assumptions.

Industries with the Highest Number of Employees in North Dakota¹						
Rank	Industry Sector	Avg. Hourly Wage	Avg. Weekly Wage	Avg. Annual Wage	30% of Income	Affordable Monthly Housing Costs
1	Health Care and Social Assistance	\$24.95	\$998	\$51,896	\$15,569	\$1,297
2	Retail Trade	\$15.48	\$619	\$32,188	\$9,656	\$805
3	Education Services	\$21.63	\$865	\$44,980	\$13,494	\$1,125
4	Accommodation and Food Services	\$8.90	\$356	\$18,512	\$5,554	\$463
5	Manufacturing	\$26.93	\$1,077	\$56,004	\$16,801	\$1,400

¹ Labor Market Information Center, Job Service North Dakota, QCEW Unit, September 2020

Preserving affordable multifamily housing can be a cost-efficient solution.

Below is a cost scenario comparison for a \$2 million project to rehabilitate a 20-unit building. The projects needed \$1.4 million in non-traditional funding to move the project forward.

20-Unit Apartment Building Rehabilitation Costs \$2,000,000			
TRADITIONAL FINANCING		AFFORDABLE DEVELOPMENT	
		<i>To maintain current rents of \$610-647, the project will require more than 70% of the rehab funds to be soft debt or equity.</i>	
Loan	\$1.4 million (70%)	Soft Debt/Equity	\$1.4 million
		Loan (5%, 20 year)	\$600,000
Annual Project Expenses		Annual Project Expenses	
Loan Payment (5%, 20 year)	\$135,604	Existing Rural Development	\$16,313
Existing Loan Payment Rural Dev.	\$16,313	New Loan Payment	\$48,145
Project Operating Expenses	\$103,000	Project Operating Expenses	\$103,000
Needed annual revenue from rent	\$254,917	Annual Revenue from rent to break even	\$167,458
Average monthly rent per unit needed to cover annual expenses	\$1,062	Average rent per month to cover annual expenses	\$698
Project's current rent	\$610-647		

New construction of affordable multifamily housing.

The cost to construct new market-rate multifamily housing and affordable multifamily housing is the same. The difference is the non-traditional fund sources used to reduce the amount of debt. Below is a cost scenario comparison for a new 24-unit building.

Affordable Housing – New Construction Scenario			
24-Unit Apartment Building			
Cost of Construction is \$175,000/per unit x 24 units = \$4.2 million			
	Traditional Financing Market Rate Rent	Non-Traditional Financing Affordable Rate Rent	
Equity Investment	\$1.26 million (30%)		
Loan	\$2.94 million (70%)		
Gap Financing (federal funds, private investments, donations, HIF)		\$2.94 million (70%)	
ANNUAL EXPENSES			
Loan Payment (6%, 20 years)	\$252,757	\$0.00	
Operating Expense	\$120,000		
Return on Equity (8%)	\$100,800		
Annual Revenue needed from rents to cover expenses	\$473,557	\$220,800	
Average Monthly Rent Per Unit to Cover Expenses	\$1644		
Income Restricted Rent Structure to Cover Expenses		5 units at \$403	5 units at \$493
		5 units at \$898	9 units at \$1050

HOUSING IS MORE THEN INFRASTRUCTURE, IT IS A HOME

To assess which North Dakotans have the greatest barriers to accessing affordable housing, NDHFA works with stakeholders, reviews public comments, and analyzes data trends. These decisions are critical as state, private and federal funding is extremely limited, never enough to meet our state’s housing needs. The program prioritizes the development of housing by targeting for specific populations including:

- Older adults
- Persons with disabilities
- Individuals who are Homeless/Chronically Homeless
- Lower-Wage Workforce

ADDITIONAL APPROVALS & AMENDMENTS

NDHFA Requests the approval of the following items:

- Section 4. APPROPRIATION. In addition to the amount appropriated to the housing finance agency in subdivision 4 of section 1 of this Act, there is appropriated any additional income or unanticipated income from federal or other funds which may become available to the agency for the biennium beginning July 1, 2021, and ending June 30, 2023.

Century Code changes and additions in the Proposed Amendments to Senate Bill No. 2014:

- SECTION 25. 54-17-07.3 (created and enacted)
- SECTION 26. 54-17-10 (amendment)
- SECTION 28. 54-17-07.12 (repeal)

ADDITIONAL INFORMATION

North Dakota Housing Finance Agency website

www.ndhfa.org

The Current State of Housing In North Dakota – a study of the affordability of single and multifamily housing, the impacts of COVID-19, and housing challenges face by vulnerable populations in 2020

<https://www.ndhfa.org/wp-content/uploads/2020/11/CurrentStateofHousing.pdf>

Housing Incentive Fund 2011 to Present

<https://www.ndhfa.org/index.php/ndhif/>

North Dakota Housing Finance Agency 2020-2025 Strategic Plan

<https://www.ndhfa.org/wp-content/uploads/2021/01/StrategicPlan2020-2025.pdf>